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Secretary Shultz

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The following is a statement by Secretary Shultz before the Senate Budget Committee, Washington, D.C., February 19, 1986.

I welcome the opportunity to speak in support of the President's fiscal year (FY) 1987 budget request for the international affairs function—budget function 150. Our request comes before this committee at a time of great debate over how to reduce our Federal budget deficit. As a former budget director, I know from experience that there are no easy choices. And I am determined to have the Department of State do its fair share in getting the Federal budget under control. In fact, the greatest single contribution the United States can make to the economic well-being of the developing world is to get our own economic house in order.

As recent history demonstrates, strong U.S. growth and lower U.S. interest rates are crucial to the rest of the world, and to the developing countries, in particular. For example, a fall of 2% in U.S. real GNP [gross national product] in 1982 resulted in a 13% decline in U.S. imports from developing countries, while 7% U.S. growth in 1984 was associated with an 18% rise in U.S. imports from the developing world. U.S. interest rates are translated directly into interest payments required from indebted nations. In 1983, the U.S. prime rate fell from 15% to 11%. That year, interest payments fell by almost $9.5 billion, while the debt outstanding from developing countries actually increased.

Greater fiscal discipline in the United States will help the U.S. economy stay on the moderate, noninflationary growth path projected by the Council of Economic Advisers. This will be a double benefit to the developing countries: we will be a good market for their exports, and lower interest rates will relieve some of their daunting burden of debt. Together, a 4% growth in the United States and another drop in U.S. interest rates should improve their external position by approximately $10.4 billion in 1986 alone.

One of my responsibilities as Secretary of State is to present to you the essential costs of conducting a successful foreign policy. These costs cannot be wished away. They are required if we are to safeguard our national security and international interests. We recognize we have a burden of proof to meet in requesting more funds. I can assure you that in preparing this budget every attempt was made to economize.

The increases over FY 1986 levels contained in our FY 1987 request come mainly in improving protection of our diplomatic personnel and facilities abroad. Were it not for the need to provide greater security for them, our current request for function 150 would be lower than the amount originally requested for FY 1986. In fact, our request is $3.9 billion less than the amounts actually appropriated by the Congress for the international affairs function in FY 1985.

Our security assistance request, which seems higher when compared to the post-Gramm-Rudman-Hollings levels of FY 1986, is essentially the same as we requested in FY 1986. We are not seeking large increases in security assistance; rather, we are continuing to seek a level of resources adequate to meet our commitments and safeguard our interests. As the President has observed, national security has to be our government's highest priority. The resources we are requesting have been accommodated within the FY 1987 budget and the $144 billion deficit target contained in the Gramm-Rudman-Hollings legislation.

The support that Congress has provided in the past has been invaluable in strengthening America's position in the world. As I shall explain later in greater detail, the growth and deployment of our diplomatic and foreign assistance assets have contributed to major foreign policy successes.

- The NATO alliance is strong.
- Democratic institutions have emerged throughout Latin America and in key countries elsewhere.
- We have an enhanced security posture in Central America, the Caribbean, and the Pacific Basin.
- There has been a dramatic shift in Third World economies away from statist solutions and toward free markets.
- We have maintained the peace process in the Middle East, by an active diplomacy but also by steady support

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for our friends on both sides who are being asked to take risks for peace.

• We have given effective support to those who fight for freedom and independence in their own countries.

We must consolidate and expand these accomplishments as we continue to explore new opportunities for peace and stability. To meet these objectives, we have constructed a budget which reflects our essential needs.

Budget Overview

The FY 1987 budget request for the international affairs functions totals $22.6 billion: $2.1 billion above the FY 1986 "postsequestration" levels; $1.4 billion above the amounts appropriated by the Congress for FY 1986; but $200 million *below* the amounts originally requested by the President for FY 1986. Let me first speak to the two major areas of increase over the postsequestration levels.

The largest increase—$1.5 billion for the State Department's operating budget—reflects the Administration's proposals to protect our people and diplomatic posts overseas from international terrorism. We in the State Department and our colleagues from other agencies serving abroad are on the front line. The courage and patriotism of our people and their families in facing the dangers of terrorism are inspiring. We must ensure their safety. The Congress urged us strongly to develop a comprehensive program. We have done so and are now presenting it to you.

The second major area of increase is to restore security assistance levels necessary to meet our international commitments and to pursue our priority foreign policy objectives. Helping our friends defend themselves is our first line of defense. As the President said last year: "Dollar for dollar, our security assistance contributes as much to global security as our defense budget." We must not succumb to false economizing—leaving ourselves and our friends more vulnerable in areas vital to international security. Vacuums that we create in countries or regions of strategic importance will soon be filled by those less interested in peace and stability than we are. In the long run, this will end up costing us much more than the short-term investments reflected in this request.

Let me address the major budget components and the objectives they serve. Our development and security assistance requests for $16.2 billion serve four main foreign policy objectives:

• Supporting the Middle East peace process;

• Strengthening our alliances and cooperative defense relationships;

• Promoting regional stability in Central America and the Caribbean; and

• Supporting economic reforms and democratic forces throughout the world.

These objectives are interrelated—and crucial.

Nearly 34% of these resources go to Israel and Egypt in support of our search for peace in the Middle East. Assistance to the base rights countries of Spain, Portugal, Greece, Turkey, and the Philippines and to military access and front-line states such as Kenya, Oman, Morocco, Korea, Pakistan, and Thailand represents another 26%. Our efforts to promote regional stability in Central America and the Caribbean take another 11%.

There are other countries of importance to us which share our democratic values, such as India and Colombia; or where new democracies have emerged, such as Bolivia and Uruguay; or where fundamental economic reforms are taking place, such as Ecuador and Senegal; or that are simply strategically important to us, like the island states of the South Pacific. When these countries prosper and remain free, they demonstrate to the world that the benefits of open societies and open economies transcend geographic size and cultural diversity. They deserve our moral and material support. The amount of funds we are seeking to support these countries is relatively small—some 17% of the total foreign assistance request. The real and symbolic importance of these resources, however, is considerable.

All other country programs account for only 3% of the total foreign aid request. Some are poverty-stricken African states to which we are directing our humanitarian and technical assistance programs. Others, like Mozambique, are moving from the Soviet bloc toward genuine nonalignment. Still others, such as Burma and Peru, are active partners with us in the war against international narcotics trafficking.

Finally, some 9% of our assistance goes to AID [Agency for International Development] noncountry programs and a number of generously beneficial efforts, including the Peace Corps, refugee assistance, and narcotics control efforts.

We have done some tough pruning and made hard choices to come up with these allocations. It is a lean budget and, in our considered view, a minimum budget. Further reductions would compound our risks, weaken our friends, and add to our dangers. Foreign assistance is a kind of insurance, shoring up our security. If we try to cut corners, we run the risk of greater dangers that could well exact much higher budgetary and foreign policy costs. If the FY 1987 budget is insufficient, as it is in FY 1986, to fund country programs adequately and to provide the flexibility necessary to meet new requirements in an everchanging world, we deny ourselves the opportunity to build and maintain constructive relationships with dozens of countries throughout the world serving a multiplicity of U.S. interests.

Let me now do a brief tour of the world to discuss the specific policy objectives I outlined earlier.

The Search for Peace in the Middle East

Peaceful solutions in the Middle East will become possible when we and our friends make it clear that radical solutions get nowhere. Our commitment to Israel and its security is rock solid, and our levels of assistance must reflect that commitment. At the same time, we must continue to provide significant support to Egypt, which had the courage to break ranks with the rejectionists and make peace with Israel. A sound Egyptian-Israeli relationship remains the cornerstone of our broader peace efforts and our regional security policy. We must also help our moderate friends in the Arab world defend themselves against the genuine security threats they face. Radical forces in the region are against negotiations, against peace. Thus, they lash out not only at Israel, whom they seek to destroy, but at any Arab country that shows the courage to seek peaceful solutions.

The necessary condition for further progress in the Middle East peace process is the willingness of both [Israeli] Prime Minister Peres and [Jordan's] King Hussein to pursue ways to enter into direct negotiations. Both leaders remain fully committed to this endeavor.

Two key issues remain to be resolved: how to structure international support for direct negotiations and how the Palestinian people are to be represented in those negotiations. Prime Minister Peres has accepted the idea of an international forum, and recent discussions with both sides have addressed specific arrangements. The question of Palestinian representation is particularly difficult, confronting King Hussein with the historic challenge of bringing for-

ward Palestinians of good will who will support and associate themselves with efforts to reach a negotiated settlement.

Egypt is uniquely situated to interact constructively with all the parties and wants to help move the process forward. We value President Mubarak's assistance and support. At the moment, Egypt is engaged in talks with Israel aimed at resolving the Taba border dispute and other bilateral issues including the return of the Egyptian ambassador to Tel Aviv. We are hopeful these efforts will soon bear fruit.

Syria and Jordan have recently entered into a dialogue on bilateral relations as well as the peace process. Syria remains an important factor in the equation, and we are following the course of those discussions with great interest.

We are seeking $5.4 billion in economic and military assistance for Israel, Egypt, and Jordan. We are in the process of reviewing with our friends in the region their needs for defensive arms. Meeting their legitimate defensive requirements is critically important to maintaining the credibility of our security role throughout the region and to preserving our role as mediator in the search for peace. Above all, we must strengthen our friends in order to deny the Soviets any opportunities to subvert a region crucial to our interests.

Israel's Economic Reforms

Last year, we sought, and Congress appropriated, $1.5 billion in supplemental assistance to support Israel's economic reform program. Buttressed by this assistance, Israel has made significant progress in stabilizing its economy since last summer. Prime Minister Peres' July 1, 1985, measures included a 19% devaluation of the shekel, cuts in government expenditures leading to a marked reduction in the budget deficit, a sharp decline in real wages, and a restrictive monetary policy.

The combined impact of new fiscal and monetary policies on inflation has been dramatic. The monthly rate of inflation declined from 27.5% in July to 1.3% in December. This has enabled the Israeli Government to keep the shekel/dollar exchange rate stable. Meanwhile, the positive trend in the balance of payments, which began in late 1983, has continued. Israel ran a substantial civilian current account surplus in 1985 due to continued improvement in its balance of trade and substantial increase in transfers from abroad. This improvement resulted in more than a billion-dollar increase in official reserves, from the midyear low point, to about $3.2 billion at year's end. Israel's foreign debt stabilized and its maturity structure improved as short-term debt was repaid during 1985. U.S. economic support funds and disbursements from our FY 1985 supplemental appropriation for Israel made an important contribution. The remainder of our supplemental, which was a one-time emergency assistance measure, will be disbursed in FY 1986 in support of further Israeli reform efforts.

Notwithstanding the considerable progress made so far, Israel's stabilization program remains fragile. The major problem continues to be excessive government spending. The new Israeli budget moves in the right direction, but additional reductions in government spending are necessary. Recent wage increases are also cause for concern. While real wages have fallen sharply since last July, they are programmed to increase in the December-March period; by April, real wages will be where they were last June. Unless offsetting measures are taken to contain the attendant increase in domestic demand and production costs, wage increases of this size could result in renewed inflation and higher unemployment. Future wage increases need to be linked to increases in labor productivity.

Over the longer term, the Government of Israel would do well to consider reforms in a number of other areas as a means of facilitating noninflationary growth. These include delinking financial assets from domestic price indices, labor market reform, and changes in investment and tax policies. Our recent bilateral discussions in the Joint Economic Development Group have focused increasingly on these and other economic and investment issues in recognition of their importance to Israel's long-term growth and prosperity. Our discussions with Israel in this forum underscore our commitment and partnership.

In the context of Israel's economic reform, we strongly endorse Operation Independence, a private sector effort to expand trade, encourage private investment, and reduce Israel's dependence on U.S. aid. Spearheaded by a group of dynamic American businessmen, this initiative has already produced tangible results in expanding Israel's exports.

Egyptian Economic Program

Last year, at the Administration's request, Congress also appropriated $500 million in supplemental assistance for Egypt. These funds, along with our regular assistance program, were in support of economic reform. In 1985, the Egyptian Government drew up a 13-point reform program. It raised prices for agricultural commodities, for example, and for a wide range of sensitive consumer items; it also raised electricity rates by more than a third and gasoline prices by 25%. These incremental actions, however, still fall far short of the comprehensive effort needed for long-term economic viability.

During 1986, we will time our disbursement of the remaining $150 million of the supplemental to support further reform measures. Priority areas for action include reducing the balance-of-payments and budget deficits, improving the system of debt management, and expanding the role of the private sector. Rapid progress in these areas is all the more urgent now, given the damaging impact on the Egyptian economy of the precipitous drop in oil prices.

The Persian Gulf

We continue to be concerned and vigilant about the Persian Gulf. Strategically located, this region is vulnerable to Soviet expansionism. It remains a major source of energy supplies essential to the economic health of the free world. Our naval force in the gulf expresses our interest in the security and stability of the region.

We and our Arab friends agree that they should be the first line of defense of the gulf. Thus, our role—an essential role—is to continue reinforcing the defensive capabilities and security of our friends in the Arabian Peninsula, both through commercial sales and security assistance. The security relationship we have built with Oman is a vital element of our Central Command strategy. Our military assistance to the Yemen Arab Republic, on the other side of the peninsula, is particularly important in view of the recent destabilizing events in South Yemen.

We are troubled by Iran's intransigent prolongation of its brutal war with Iraq, as well as by the dangers which this war poses for nearby neutral countries. We have offered vigorous support for all the numerous efforts, particularly that of the United Nations, to bring the war to a negotiated end with the sovereignty and territorial integrity of both sides intact.

Enhancing Defense and Security Relationships

Around the world, America's alliances and security relationships are sound. We have had some differences with our

European allies during the past year. But alliances among free nations will always see expressions of differing perspectives. On the fundamental issues of our mutual security, the Atlantic alliance remains solid. In fact, we made gains in the past year—for example, in our bilateral discussions about participation in the research program of the Strategic Defense Initiative.

With the Soviet military threat to Central Europe and Southwest Asia continuing to grow, security assistance designed to improve the defense capabilities of countries on NATO's southern flank is of special importance. Our security assistance to key NATO allies also helps ensure continued access to strategically important military bases and sustains confidence in the "best efforts" commitments which are the foundations of our base agreements.

We cannot measure our interests in NATO's southern flank solely by our military links. The broad common commitment to Western values has a meaning that transcends these military ties. Spain and Portugal have now joined Europe, in an important symbolic sense, in joining the European Community. This is a triumph for the Western world. On the other side of the Mediterranean, we often hear of problems bedeviling our bilateral relationships with Greece and Turkey. Let us not forget the common interests and shared values that underlie these relations and that establish the basis for the resolution of our difficulties. I view my upcoming trip to these two countries as part of the process of building on our common objectives.

On the other side of the globe, we continue to regard the U.S.-Japanese Mutual Security Treaty as the pillar of Asian peace and stability. Japan has become our largest market after Canada, and both sides are working toward resolving our trade differences. We are also working with the Republic of Korea, whose security has never been more important to us, on trade issues and mutual security and resolving market access problems in our expanding two-way trade. While we have some serious problems with New Zealand, Australia remains a valued ally.

Our aid programs concentrate on the region's more threatened or vulnerable nations: the Philippines, the Republic of Korea, and Thailand.

The Philippines is experiencing serious economic and political problems. Ambassador Philip Habib is currently assessing the situation there for the President, and we expect his report to influence the course of our efforts to assist the Philippines through this prolonged crisis. In the meantime, we are taking care to ensure that our aid contributes to the structural reforms needed to put its economy back on the path of growth. Our military assistance to the Philippines remains our best and most useful tool to help promote the reform and development of a professional military. Whatever the near-term problems of the Philippines, there is no doubt that the presence of a strong, democratically oriented military is in our best interests. It is also time to fund military assistance at a level necessary for the Armed Forces of the Philippines to fight the insurgency successfully. We must also fulfill the President's "best efforts" commitment made in the context of the last 5-year review of the military bases agreement. The military facilities themselves remain vital to protecting the sea- and airlanes of the region and providing logistical support for our forces in the Indian Ocean and Persian Gulf.

The Republic of Korea continues to confront the greatest threat to its security from its communist neighbor to the north. Tension on the peninsula remains high, and continued American presence and support are crucial, especially over the next 3 years. Our Korean ally is already devoting a large portion of its GNP to defense, but continued FMS [foreign military sales] credits are needed if Korea is to meet key objectives of its Force Improvement Plan.

Like Korea, Thailand is an ally allocating substantial resources to military modernization and creating a credible deterrent to Vietnamese aggression. We need to support these efforts and assist Thailand in achieving its development goals so that it can maintain a healthy, balanced economy in the face of its increasing security needs. We need to do this not only because of the importance of Thailand itself but because we have an enormous stake in the independence, prosperity, and integrity of the group of ASEAN [Association of South East Asian Nations] nations of which Thailand is a part. The ASEAN nations sit astride vital sealanes joining Asia with the Middle East and Europe. The United States—indeed, most of the free nations of the world—have a critical interest in keeping them peaceful and open. Our assistance programs in Malaysia, Singapore, and Indonesia help ensure stability and promote progress.

One very important element in our support for ASEAN is the effort to find a political solution in Cambodia. To this end, we are backing the noncommunist Cambodian groups resisting Vietnam's occupation of their country. Following the Vietnamese offensive a year ago that drove their camps away from the Thai-Cambodian border, these forces have concentrated on regrouping and training for guerrilla activity inside Cambodia.

Together, the Khmer People's National Liberation Force (KPNLF) and the Sihanoukist National Army have some 9,000 troops currently operating inside the country, with more scheduled to enter. Despite problems that include a serious split within the KPNLF leadership, military resistance leaders are optimistic about their prospects. We are now discussing with interested parties how the U.S. assistance funds for noncommunist groups provided in FY 1986 can best support resistance activities. We do not plan to provide lethal equipment, as the groups are already adequately supplied with weapons.

In the Pacific, we are in the process of establishing a new and unique relationship with the Freely Associated States of Micronesia. In the South Pacific we are facing, for the first time, the threat of increased Soviet interest and activity. The negotiation of a regional fisheries agreement with the nations of the South Pacific promotes U.S. interests in the area. We hope to reach a final agreement later this year.

In South Asia, the Soviet aggression in Afghanistan has continued for more than 6 years. Pakistan's staunch opposition to Soviet aggression and its generosity to more than 2 million Afghan refugees pose an enormous financial burden on Pakistan, which the United States has tried to alleviate through our current 6-year economic, 5-year military program of assistance. This program enters its final year in FY 1987. We must maintain that support, out of loyalty to a staunch ally that faces a direct Soviet threat and to maintain the pressure on the Soviets to move toward a negotiated settlement in Afghanistan.

Our assistance provides vital support for Pakistan as that country enters a new era of democratization, which began with the lifting of martial law on December 30, 1985. The new civilian government is looking to the United States, which has strongly encouraged a more representative government, to provide continued moral and financial support as the government copes with the continuing Soviet aggression in Afghanistan and the burden of refugees. Pakistan is a poor country, and our as-

sistance also helps it pursue its economic development plans, even under the heavy burdens it bears.

Regional Stability and Security in Central America and the Caribbean

Events in Central America and the Caribbean over the past year have confirmed the important link that exists between foreign assistance and U.S. national interests. Our continuing policy of support to prodemocratic forces is enabling democracy to take root and to become self-sustaining.

Guatemala is the latest Central American country to have abandoned military rule for elected civilian government. Elected civilian leaders also have replaced authoritarian regimes in El Salvador and Honduras. Nicaragua is the only nondemocratic country remaining in that region.

A few years ago, critics of Central America and U.S. policy toward that region were skeptical that democracy could gain support in an environment where history and economic hardship seemed to impose such burdens. They are less skeptical now. They have seen the people themselves, in one free vote after another, demonstrate their belief that democracy is the road to a better life for themselves and their children. They have also seen that our moral support and economic and security assistance can help make the difference between the success and failure of this democratic experiment. If we truly believe in human rights and economic and social progress, we must keep that lesson in mind as the peoples aspiring to freedom turn to us for support in the coming months.

The most immediate danger to democracy in Central America, of course, is the assault on it from communist Nicaragua, aided by Cuba and the Soviet Union. Democratic El Salvador is an outstanding example of a country that has managed to withstand a communist insurgency, and we have been privileged to play a part by our encouragement and help. So our policy—if we keep at it—is working. All the democracies of Central America look to us for help in defending themselves. We must support them. And we must support, not abandon, the democratic resistance within Nicaragua, which we support for both moral and strategic reasons. We will be discussing with the Congress what this moral and strategic imperative requires.

The Caribbean, too, is fertile ground for democracy. Cuba is the most egregious exception. In Haiti, after decades of autocratic government and a stagnating economy, the people have new hope of seeing a government responsive to their needs and aspirations. Our policy toward Haiti is the same as our policy toward the rest of the hemisphere. We seek to promote progress toward democracy, greater respect for human rights, and rapid and equitable economic growth. We feel that the Haitian people should choose their own future, and we note that the new government has committed itself to this objective. We hope to be of help as the interim government goes forward with this effort.

On the economic side, the Caribbean Basin Initiative is succeeding in broadening and diversifying the production and export base of the region, laying the foundation for long-term recovery. Unfortunately, many of the gains have been offset by declines in the prices for traditional exports. In some cases, most notably sugar, the declines in prices are aggravated by our farm bill, which will result in a loss of $52 million in export earnings by the Caribbean Basin countries. The restructuring of economies to make them less vulnerable to commodity price fluctuations requires a sustained commitment from the political leadership of these countries. It also requires sustained support from the international development community. We will continue to do our share.

Supporting Economic Reforms and Democratic Institutions

Looking beyond Central America and the Caribbean, across the globe, we see further evidence of the powerful appeal of liberty. Democracy is taking root in country after country, demonstrating the vitality and relevance of our ideals.

The past few years have also confirmed the connection between freedom and economic progress. In the early 1980s, this Administration developed economic policies aimed at liberating the creativity of the American people. The results speak for themselves: 9 million new jobs in this country in the last 3 years, helping pull the world economy out of recession, with inflation now one-third the rate of 5 years ago.

The world economy is still troubled. But nations everywhere are rediscovering the basic truth that the source of economic growth is individual creativity, not the state. The same laws of economics apply to developed and developing countries alike, and those that apply its truths are reaping the rewards.

India, the world's largest democracy, is a critical—and successful—test case that shows that democratic politics and economic development are not only compatible but mutually supportive. Under Rajiv Ghandi's able leadership, India is moving into an era of advanced technology and rapid economic growth, spurred on by liberal economic policies. It is not only an increasingly attractive market for American exports but is becoming a major factor in such areas as computer software and light industrial goods.

India has also assumed an increasingly important strategic role, as it takes its place as a major regional—and world—power. It has begun this process by strenghtening its ties with its regional neighbors—especially Pakistan, with which it has announced a major nuclear agreement. Our own relations with India have significantly improved this past year, and not at the cost of our ties to China and Pakistan.

In Argentina, Brazil, Ecuador, Uruguay, Bolivia, and Peru, democratic governments are faced with the daunting challenge of restoring economic stability and establishing the conditions for sustained economic growth. The task for the Andean countries is further complicated by narcotics trafficking and terrorism. In Colombia, one of the oldest democracies in South America, terrorists and narcotics traffickers are threatening to undermine years of economic growth and progress. We want to help Colombian efforts to meet these threats. To do so, we are seeking modest increases in our security assistance program.

In Peru, a ruthless terrorist organization and a well-entrenched narcotics industry threaten national stability. We applaud President Garcia's commitment to stamp out narcotics trafficking and his determination to end terrorism within the context of democracy and respect for human rights. A mutually constructive relationship with Peru, however, will require greater moderation and cooperation and meaningful economic reform by the Peruvian Government. If these actions evolve as we hope, we would need to find increased resources to support the Peruvian effort.

In Africa, young and fragile governments are struggling with the most profound economic crisis in the continent's modern history. Our adversaries have shown themselves willing to take advantage of the continent's plight, exploiting political-military conditions in such disparate areas as southern Africa, Chad, and the Horn. It is in our own interest to help Africa realize its potential: to fuel economic growth; to monitor and

thwart the actions of Libya, the Soviets, and their surrogates; and to encourage adherence to improving standards of human rights.

Last year, the world witnessed the devastating effects of the drought which put over 30 million Africans at risk of starvation. The American response was extraordinary. Our government and private sector contributions provided unprecedented levels of food, as much as the rest of the world combined. The combined effort saved countless lives, and we can be justifiably proud of the results.

For the long term, we must encourage Africans themselves to promote the policies that lead to agricultural productivity, economic growth, and stability. There is cause for hope. Some African countries are starting to reject the statist economic policies which proved so disastrous, misallocating scarce resources and discouraging the productive private sectors of the economy.

Our bilateral AID programs are increasingly stressing policy reforms that stimulate private sector productivity. The African economic policy reform program made good progress in 1985 in promoting market-oriented reforms in Malawi, Mali, Mauritius, Rwanda, and Zambia. This year, we plan to start implementing the President's Food for Progress initiative, which will concentrate on reforms in the agricultural sector needed to provide farmers with adequate incentives.

Diplomacy in Southern and South Africa

Turning from purely economic to more general concerns, no region of Africa is the cause of more debate and concern, both in the United States and abroad, than southern Africa. We are committed to playing a positive role as the region grapples with the twin challenges of containing regional strife and bringing the abhorrent system of apartheid to an end.

In the regional conflict, our aim is to show that military solutions will not work. Unfortunately, the Soviet Union and its Cuban and Angolan allies still have illusions on this score. Over the last 2 years, the Soviets have delivered an extraordinary $2 billion in military equipment to the regime in Luanda and have engaged themselves directly in the fighting. The visit of Jonas Savimbi [President of the National Union for the Total Independence of Angola] to this country should make clear America's determination to ensure that no outside power will be allowed the opportunity to resolve on the battlefield the civil war that divides Angola. At the same time, we search for a negotiated solution. As long as negotiations continue, the path lies open to a settlement which would lead to the independence of Namibia and end the intervention of *all* foreign military forces in Angola.

We are particularly pleased by Mozambique's substantial move toward genuine nonalignment. This is reinforced by major new aid commitments from the West, of which our own aid program is an integral part. We want to encourage this favorable trend. I am concerned that the congressional restrictions on aid to Mozambique threaten to undo what has been a significant political accomplishment of U.S. foreign policy.

In South Africa, the goal of reform must be to end apartheid and to bring about a political system based on the consent of the governed. The President's Executive order of last September 9 was designed to convey the united opposition of the American people to the apartheid system. This is a message we continually reiterate in contacts with the South African Government. It is also a message we are sending in concrete ways as we move to build ties with the black community in South Africa. The aid program mandated by the Executive order works through private voluntary organizations to train black leaders for the future and to assist black entrepreneurs. We are also providing funds for direct legal assistance to the victims of apartheid and their families. The Human Rights Fund will provide $1.5 million for these and similar projects, while about $10 million will be available for scholarships for those disadvantaged by apartheid.

America continues to play a positive role in South Africa, but outside countries cannot, alone or in combination, resolve South Africa's problems. The government there must take the steps that will make it possible for black leaders to negotiate. In turn, these leaders must be willing to negotiate themselves. The alternative is the kind of violent upheaval that seldom produces just or democratic solutions.

Multilateral Development Banks and Programs

The multilateral development banks play an important and complementary role in many countries important to the United States. As developing countries seek to move from crisis management and austerity to a renewal of sustained economic growth, they will be competing for a finite supply of investment capital from the international financial community. These resources will flow where they are welcome—when conditions are hospitable. A true partnership based on mutuality of interest will have to be forged between the developing countries and the holders of development capital—the industrial countries, international lending institutions, and the commercial banks.

Last October, at the Bank-Fund [World Bank-International Monetary Fund] meeting in Seoul, [Treasury] Secretary Baker proposed a bold, new comprehensive approach to get debtor countries back on the path of sustained growth. The proposal envisaged a more vigorous World Bank role in facilitating and promoting economic reform and adjustment in debtor nations, as well as greater coordination between the Bank and the IMF in their country programs. The proposal also included a provision for enhancing World Bank and IMF cooperation in providing concessional financing to the poorest developing countries, most of which are located in sub-Saharan Africa.

When Secretary Baker outlined our approach, he stressed that the sine qua non of any comprehensive strategy was a more focused and determined effort of market-oriented structural reform aimed at greater efficiency, more domestic saving, and a more attractive climate for domestic and foreign investment. And, in conjunction with this, he addressed two other key elements designed to provide outside support and encouragement for structural reform: more substantial and better coordinated assistance from multilateral institutions and more support from commercial banks.

This was a creative effort, it seems to me, to bring the broader international community into the process of helping solve the debt problem. Both the World Bank and regional development banks are well placed to complement the continued central role of the IMF by providing financing and advice to countries taking the essential steps toward structural reform. The World Bank's considerable expertise can help devise programs for growth through structural reform. It can support these programs through increased lending to promote reform in inefficient sectors of the economy and through increases in policy-based lending. The Inter-American Development Bank is uniquely situated to help in this effort, as well, but im-

provements are needed in its institutional capabilities before this potential can be fully realized. Our participation in the multilateral development banks is an integral part of our assistance policy. Continued congressional support for our replenishment commitments will sustain our leadership role in these institutions.

The new commercial bank lending that Secretary Baker proposed—$20 billion over a 3-year period—is also a vital part of the near-term effort. Bank lending to the principal debtor countries has been declining, with very little new net lending having taken place in 1985. Increased lending can provide important support for policies to promote efficiency, competitiveness, and productivity—the true foundations of growth. Such lending, however, will only be forthcoming if there is a clear commitment to adopt and implement such growth-oriented policies.

In Seoul, Secretary Baker also proposed that the World Bank, IMF, and other donors develop joint programs to support medium-term structural adjustment in the world's poorest countries. Africa will be the chief beneficiary. The proposal calls for the coordinated use of $2.7 billion in IMF Trust Fund reflows, World Bank funds, IDA [International Development Association] monies, and possible increases in bilateral contributions for Africa to support comprehensive economic reform programs. This proposal merits our full support, as the development of consistent and coherent country economic reform programs is essential if we are to maximize the efficient use of scarce development capital.

The need for increased coordination between the Bank and Fund has been generally supported, and the U.S. initiative is gaining broad acceptance. We have addressed the concerns of Fund and Bank members regarding the need not to blur the distinctive roles of the two institutions while achieving closer cooperation and collaboration.

I do not want to leave the subject of efficient use of development capital without commenting on the need of the developing countries to take full advantage of the opportunities of the world trading system. This is essential if they are to achieve their great potential for expansion of output and export earnings.

Restrictive trade practices have only compounded the problems of many heavily indebted developing countries. All too typically, heavy foreign borrowing has supported fiscal deficits and overvalued exchange rates, putting a great burden on export competitiveness. Import barriers have been erected to protect favored domestic industries from foreign competition. These barriers have severely hampered the growth of trade *among* developing nations. The developing countries and the industrialized world have one thing in common: all of our peoples are winners if we have a stronger and fairer world trading system. We hope the developing countries will work with us on a new trade round to overcome the narrow interests that threaten our common progress.

The Battle Against Terrorism

I would like to conclude by elaborating on my earlier comments about the requested increase in our operating budget.

Over the past few years, the world's attention has been riveted to terrorist dramas unfolding around the globe. I have spoken frequently on this subject. Civilized nations and civilized peoples have been inadequately prepared for it. That can and must change. We must do everything we can to thwart those who seek to advance their ends through terror and to ensure the safety of our citizens abroad. Even in this period of budgetary stringency, this task *must* be a priority. We have designed a program which, in our view, is prudent and efficient in its commitment of resources, yet responsive to the inescapable necessity we now face.

The United States has always built handsome and accessible embassies and consulates abroad. Our object was to demonstrate to other societies the openness of ours and the hand of friendship we extend to all. We wanted other societies and their people to see a "welcome" sign above our door and to feel comfortable in entering our buildings. This is the essence of the job we do overseas, and we have been highly successful at it.

We are now faced with a new situation: the current security and terrorist problems have left those same buildings vulnerable. Our challenge is to strengthen our security against these new dangers so that we can *maintain* our tradition of openness and accessibility. We will *not* let the terrorists win their victory by isolating us, forcing us to close our doors, or denying us our contacts with the people of the countries in which we are represented.

With this goal in mind—and knowing of the great concern in the Congress—I formed the Advisory Panel on Overseas Security, chaired by Admiral Inman. I asked the panel to take a hard look at our security and counterterrorism programs.

The hard work and dedication of the panel is clearly reflected in the quality of its report. The panel exhaustively researched all aspects of our security and counterterrorism programs. Its recommendations have vision. Equally important, they are practical. They are recommendations which, with your support, we can act on.

The panel made 91 recommendations. We have implemented 45, and work is underway on 20 more. An additional 20 are awaiting the resources requested in our proposed authorization and appropriation legislation.

Using existing resources and authorities that the Congress has already provided, we have made progress in many areas highlighted by the panel. For example, we have started an ambitious recruitment campaign to bring on board nearly 300 new security agents during FY 1986 and to more than double the number of overseas security officers before the end of this fiscal year. In addition, we have:

- Added more marines to posts;
- Nearly doubled the size of our armored vehicle fleet worldwide;
- Made significant physical security improvements at 152 of our posts overseas in 1985;
- Consolidated the security functions of the Department into one office, the new Bureau of Diplomatic Security; and
- Also created an Office of the Ambassador at Large for Counterterrorism, which deals with policy matters and reports directly to me.

There is, however, a limit to what we can do with existing resources. We need additional legislative authorities and resources to implement some key recommendations of the Inman panel. We are seeking a significant part of the total resources in FY 1987.

The Administration's proposals will do three main things:

First, launch a comprehensive worldwide security program, key elements of which are improvements in communications and intelligence sharing and a 5-year construction program to replace or upgrade our most vulnerable posts;

Second, complete the reorganization of our security program as recommended by the Inman panel; and

Third, revise and clarify the chain of command for overseas security programs.

The program places its highest priority on buildings at locations where the security threat is greatest and

which are substantially below the new standards. Great effort has gone into creating a security construction program which would ensure that buildings are designed and built to meet stringent security standards, on time and within budget.

But our proposals are more than a security construction program. We will also improve communications and counterintelligence. For example, we will improve security at Moscow and other East European posts by substituting Americans for a substantial number of local employees now working in support positions. Further, we are requesting resources to strengthen our capability to protect foreign missions and dignitaries in the United States.

We are working closely with other agencies to develop and agree upon appropriate security standards, procedures, and levels of resources responsive to the needs of all U.S. Government agencies having facilities overseas (other than military bases).

We are requesting $4.4 billion spread over 5 years. Of this total, $2.7 billion is for construction, and the balance is for operating expenses, including security officers, residential security improvements, and more secure communications equipment. In FY 1986, the Administration is requesting $237 million for salaries and expenses and $455 million for construction. In FY 1987, the request is $304 million for salaries and expenses and $1.1 billion for construction.

The Adminstration's proposed program will not solve all of our security problems; but we can minimize them. Our proposal is a comprehensive—and long overdue—security program which addresses our most basic security concerns.

Conclusion

In summary, the world remains a turbulent and sometimes dangerous place. But, as we look ahead, we draw strength from our ideals, from our friends and the young democratic nations who have joined our ranks and now look to us for support. America remains a beacon to the freedom-loving peoples of the world. Powerful trends are on the side of freedom. That is one of the lessons of 1985.

Another major lesson of the recent past is that realism, strength, and staying power are crucial prerequisites to meeting these international challenges. History won't do our work for us. We have to be worthy of our opportunities.

The President has observed that the responsibility for the economic health of our country does not reside with one branch of our government or with one political party. The partnerships that must be forged to deal with the Federal budget deficit are also critical to meeting the challenges we face in the international arena, many of which directly affect our national security.

The noble tradition of bipartisanship, which brought us so many dividends in the postwar years, does not ask any of us to abandon our principles. But it does require all of us to recognize how much harder it is to meet foreign challenges if we are not united at home. In recent years, we have seen signs of a rebirth of the postwar national consensus—based on a realistic understanding of the world as it is and of the need to negotiate differences where possible. The President has asked me to reiterate his commitment to work in a bipartisan spirit with all members of the Congress on behalf of the peace, freedom, and security of this country. ■

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